Corp report

Hawker Industries Limited / 1971 ANNUAL REPORT

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 26th, 1972 at 2:30 p.m., E.D.T. A notice of the meeting, an information circular, and a proxy form are enclosed with this report to the shareholders.

Hawker Industries Limited

Head Office

7 King Street East, Toronto 1, Ontario, Canada

Directors

R. S. Faulkner, Toronto, Ontario

A. A. Bailie, Toronto, Ontario

M. E. Davis, Oakville, Ontario

J. F. Howard, Q.C., Toronto, Ontario

J. H. Ready, Islington, Ontario

Executive Management

R. S. Faulkner, Chairman and President

A. A. Bailie, Vice-President, Finance

I. E. Bull, Treasurer

J. H. Ready, Secretary

C. A. Haines, Assistant Secretary

Auditors

Price Waterhouse & Co., Toronto, Ontario

Transfer Agent

National Trust Company, Limited, Toronto, Ontario

Registrar

Montreal Trust Company, Toronto, Ontario

FINANCIAL DATA IN BRIEF

(in thousands of dollars except per share data)

	1971	1970
Consolidated net sales	62,490	83,578
Depreciation	1,189	949
Income from operations before taxes	2,038	2,164
Income taxes	937	1,111
Income before extraordinary item	1,101	1,053
Per common share	.37	.35
Extraordinary item	116	432
Net income for the year	1,217	1,485
Per common share	.41	.50
Items credited (net) to retained earnings/deficit	1,900	1,079
Working capital	8,868	9,630
Capital expenditures	2,304	1,289
Shareholders' equity	15,366	12,249

TO THE SHAREHOLDERS:

Your directors submit herewith the audited accounts of Hawker Industries Limited and its consolidated subsidiaries for the year ended December 31, 1971 and report as follows:

Income

On consolidated net sales of $62.5 million (1970: $83.5 million) income from operations before income taxes was $2,038,211 (1970: $2,163,711). After providing for income taxes of $937,000 (1970: $1,111,000) income before an extraordinary item amounted to $1,101,221 (1970: $1,052,711) which is equivalent to 37 cents per share (1970: 35 cents) on the 2,996,086 issued and outstanding shares of the capital stock of the Company.

The income tax provision in determining income before extraordinary items has been stated before utilization of losses carried forward from prior years. The application of these losses has resulted in a tax reduction of $116,000 (1970: $432,000) which is treated as an extraordinary item of income.

Net income for the year 1971 of $1,217,221 (1970: $1,484,711) is equivalent to 41 cents per share (1970: 50 cents) on the 2,996,086 issued and outstanding shares of the capital stock of the Company.

Retained Earnings

The Company has discharged its long term supply contracts at a cost less than provided. This has permitted transfer of $1,900,000 in reduction of deficit account from the provision for special costs and losses established in prior years. This transfer together with the net income for 1971 has generated a retained earnings balance of $385,566 at December 31, 1971 compared with the deficit of $2,731,655 a year ago.

Comment

Although sales were substantially less in 1971, consolidated net income was not as seriously affected. Two major strikes, one of 16 weeks duration at Canadian Bridge and one of 13 weeks at Trenton, disrupted progress.

The strikes were inevitably hurtful to the Company, but they arose as a result of demands for wage changes which were far beyond the economic capability of the Divisions concerned. Agreement to wage demands would have been totally damaging not only to the forward prospects of the Divisions in financial terms, (and therefore in their ability to invest in new machinery and products), but to prospects of providing continued employment in these areas.

The Canadian Bridge Division (Windsor, Ontario) discontinued unprofitable structural steel operations, and in spite of the labour strike its results were considerably improved on a much lower volume of sales. This Division is concentrating its efforts on Canadian and U.S. markets for electricity transmission towers and masts and electronic structures for which it has a good capability and is competitive.

Trenton Works Division (Trenton, Nova Scotia) sales volume in 1971 was about 45% below that of the preceding year. Profitability was marginal compared to the successful year 1970. The Division enters 1972 with a reasonable order book and improved results are expected. The modernization program affecting the axle plant and the rail car plant is approaching completion.

Halifax Shipyards Division (Halifax, Nova Scotia) had a high level of activity particularly in the production of offshore drilling rigs. This unit took serious losses in previous years in entering the drilling rig market, but is now in a position to take part in meeting the high demand for this type of vessel. It is at present working on a unit for delivery during the present year and has accepted a further order for delivery in 1973. The yard has, however, run into unforeseen additional work and consequent cost difficulties on a refit and conversion contract for two Canadian naval ships. In the Directors' opinion, a substantial part of these costs should be recoverable and a claim is being lodged. Meanwhile a conservative view has been taken of the position for purposes of assessing the profitability of the unit in 1971.

Dosco Overseas Engineering Limited (England) had another year of good results and has had further success in exporting its successful line of coal mining equipment. Its subsidiary, Hollybank Engineering Company Limited (England) acquired at the end of 1970, manufactures mine arches and roof supports. The results in the first year of operations under Dosco Overseas' ownership were satisfactory. The Coal Board of the United Kingdom is the principal customer of both these companies.

Settlement of compensation has not yet been reached for the expropriation in 1968 of the collieries in which Hawker Industries Limited has an interest and the expropriated collieries of Dominion Coal Company, Limited in which it has a shareholding. An amount of compensation has been offered in court proceedings but negotiations are continuing to obtain a better basis of settlement.

Outlook

In aggregate, order books are higher than a year ago. Cost reduction programs have been rewarding in 1971 and will continue but we are facing certain cost increases in supplies and services in 1972 which are beyond our control. A better volume of business and improved results seem probable for 1972.

Submitted on behalf of the Board

R. S. FAULKNER
Chairman and President

Toronto, Ontario, March 30, 1972.

COMMENTS ON OPERATIONS

Canadian Bridge Division

A strike by steelworkers at the Division's Windsor, Ontario plant which started in mid-December 1970 continued until the end of March 1971. This factor, coupled with a continued decline in the demand for electric power transmission structures, resulted in tower production tonnage being almost 50% lower than in 1970.

A significant export order of hydro towers for West Africa was completed and shipped during the year and fabrication of a new type of hydro pole commenced. The poles, designed to replace conventional transmission towers in urban areas where aesthetic values are important, successfully passed structural integrity tests which started toward the end of the year.

A second order for the new poles is on hand.

After very detailed evaluations of its design and manufacturing capabilities, the Division was accepted as an approved bidder by four major U.S. utility companies.

In 1971, the market for electric power structures is believed to have reached the low point of a long purchasing cycle. A minor improvement is expected in 1972.

Trenton Works Division

The Division's total sales volume decreased by about 45% from the 1970 level. The reduction was attributable mainly to the loss of business resulting from a 13-week strike by plant employees between June and early September 1971. In addition, the prolonged work disruption also prevented the Division from taking full advantage of an improvement in market conditions for railway rolling stock in the second half of the year.

Total production of freight and tank cars reached only 1088 units compared with 2032 in the previous year. Completed orders included 200 container flat cars for CP Rail, 235 similar cars for Canadian National Railways, 300 bulkhead flat cars for Pacific Great Eastern Railway and 21 tank cars for export to Mexico.

Production of railway axles was also lower than in 1970 but forgings were at about the same level. During the year, the plant fabricated the large caissons and tubular structure members for an offshore drilling vessel under construction by Halifax Shipyards Division. New processes were introduced for rolling and welding the heavy steel plate from which they were made.

A major plant reorganization program started in the latter part of 1969 had entered the final phase at year end.

Freight car orders carried forward into 1972 include 150 bi-level flat cars for carrying automobiles, the first of their type to be built at Trenton Works, and 100 box cars for export to Zambia.

Halifax Shipyards Division

A high level of activity was maintained at the Shipyards throughout the year. Work started on the construction of a third semi-submersible offshore drilling vessel which is scheduled for completion towards the end of 1972. Progress on this unit was affected by the strike at Trenton Works which delayed delivery of caissons and large tube-shaped structural members being fabricated there.

In October, a contract was received to build a further unit of the same general type but of radically different design. This vessel is for export and is ultimately destined for exploration work in the North Sea.

Assembly of a rail car ferry on Lake Titicaca in the Andes Mountains was completed during the year and the vessel placed in service by its owners. Component parts of the ship were built in Canada, transported by sea to a Peruvian port and moved up to the lake by rail.

Work also started on the construction of two stern trawlers. Both vessels are due to be completed in the Fall of 1972.

A variety of ship repair work was undertaken including continuation of the conversion and refit started in 1970 of two destroyers, HMCS Restigouche and HMCS Kootenay. The latter vessel left the Shipyard at the beginning of 1972.

The standards of work required on the drilling vessels are extremely high, particularly with regard to the quality of welding which is used extensively in their construction. To this end, intensive efforts were made throughout the year to improve welding techniques and upgrade welders through training programs.

Activity at the Dartmouth yard, which specializes in repair work on smaller vessels, was higher than for many years.

Work volume is expected to remain at a good level in 1972. World-wide demand for offshore exploration units appears likely to be maintained for several years and the Shipyards is hopeful of obtaining a continuing share of this business.

Dosco Overseas Engineering Limited

Sales of mining equipment manufactured by this subsidiary based in the United Kingdom showed a moderate increase over the previous year.

Production of the Roadheader Mk 2A machine, which was introduced in 1970, increased appreciably but total machine production was slightly below the previous year's figure. In export markets, sales of complete machines were considerably increased.

At the end of 1970, this company acquired Hollybank Engineering Company Limited which manufactures mine arches and roof supports used by the coal mining industry. Sales of both product lines showed a marked improvement over the levels achieved in the year prior to acquisition. During 1971, production of supports commenced in a factory specially built for the purpose adjacent to the Dosco Overseas Engineering plant.

Auditors' Report

To the Shareholders of Hawker Industries Limited:

We have examined the consolidated balance sheet of Hawker Industries Limited and consolidated subsidiaries as at December 31, 1971 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario, March 17, 1972.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended December 31, 1971

	1971	1970
Consolidated net sales (Note 2)	$62,490,498	$83,578,301
Income from operations before the items shown below	$ 3,203,804	$ 3,381,736
Miscellaneous income	33,754	7,395
	3,237,558	3,389,131
Deduct:		
Interest on bank advances	9,946	276,591
Provision for depreciation	1,189,391	948,829
	1,199,337	1,225,420
Income from operations before income taxes	2,038,221	2,163,711
Provision for income taxes	937,000	1,111,000
Income before extraordinary item	1,101,221	1,052,711
Income tax provision not required by reason of losses carried forward from prior years	116,000	432,000
Net income for the year	1,217,221	1,484,711
(Deficit) at the beginning of year	(2,731,655)	(5,296,026)
	(1,514,434)	(3,811,315)
Provision for special costs and losses no longer required (Note 7)	1,900,000	1,368,523
Goodwill written off on acquisition of subsidiary on December 30, 1970	—	(288,863)
Retained earnings (deficit) at the end of year	$ 385,566	$ (2,731,655)
Earnings per share:		
Before extraordinary item	37¢	35¢
After extraordinary item	41¢	50¢

CONSOLIDATED BALANCE SHEET – December 31, 1971

ASSETS	1971	1970
Current Assets:		
Cash	$ 1,180,793	$ 486,996
Accounts receivable	12,214,396	11,664,477
Due from affiliated companies	214,772	857,775
Inventories at lower of cost and estimated realizable value, less progress payments	14,809,763	10,531,795
Prepaid expenses	255,393	157,145
	28,675,117	23,698,188
Other Assets:		
Coal mining interests (Note 3)	1,872,718	1,872,718
Other investments, at cost	25,601	25,601
	1,898,319	1,898,319
Fixed Assets, at cost (Note 4):		
Land, buildings, machinery and equipment	32,729,318	30,706,314
Less – Accumulated depreciation	21,279,175	20,165,150
	11,450,143	10,541,164
	$42,023,579	$36,137,671

LIABILITIES	1971	1970
Current Liabilities:		
Bank advances (Note 5)	$ 2,187,383	$ 1,736,305
Accounts payable and accrued liabilities	14,582,480	9,349,209
Income and other taxes payable	2,360,678	2,080,798
Due to affiliated companies	677,028	901,598
	19,807,569	14,067,910
Provisions:		
Unfunded pensions (Note 6)	6,794,014	7,195,986
Special costs and losses (Note 7)	—	2,625,000
	6,794,014	9,820,986
Deferred Income Taxes	56,000	—
Shareholders' Equity:		
Capital stock –		
Common shares without nominal or par value –		
Authorized – 3,000,000 shares		
Issued – 2,996,086 shares	14,980,430	14,980,430
Retained earnings (deficit)	385,566	(2,731,655)
	15,365,996	12,248,775
	$42,023,579	$36,137,671

Approved on behalf of the Board:
R. S. Faulkner, Director
A. A. Bailie, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL
for the year ended December 31, 1971

	1971	1970
Source:		
Net income for the year	$1,217,221	$1,484,711
Non-cash items included in determination of net income –		
Depreciation	1,189,391	948,829
Deferred income taxes	56,000	—
Funds provided from operations	2,462,612	2,433,540
Shares issued	—	180,000
Fixed asset disposals	205,730	11,463
	2,668,342	2,625,003
Application:		
Additions to fixed assets	2,304,100	1,288,973
Reduction in provision for unfunded pensions (Note 6)	401,972	418,303
Charges to provision for special costs and losses (Note 7)	725,000	369,818
Reduction in working capital on purchase of subsidiary	—	564,068
	3,431,072	2,641,162
(Decrease) in working capital	(762,730)	(16,159)
Working capital at beginning of year	9,630,278	9,646,437
Working capital at end of year	$8,867,548	$9,630,278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1971

1. Financial Statements:

The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco). The accounts of Domco are not consolidated because that company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see Note 3).

2. Classes of Business:

	1971	1970
Equipment for transportation industry	$24,411,632	$45,077,066
Other general engineering products	38,078,866	38,501,235
	$62,490,498	$83,578,301

3. Coal Mining Interests:

	1971	1970
Shares in subsidiary not consolidated, at cost — Comprising all the issued common shares and 26,521 preferred shares of Domco	$ 331,514	$ 331,514
Coal mining inventories and properties	1,541,204	1,541,204
	$ 1,872,718	$ 1,872,718

On March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid has yet to be established but it is not expected that losses will be incurred.

4. Fixed Assets:

Fixed assets acquired on commencement of operations on January 1, 1968 are recorded at cost to Dominion Steel and Coal Corporation, Limited, (Dosco), the former parent company, together with depreciation accumulated to that date. Subsequent additions to fixed assets are recorded at cost.

5. Bank Advances:

Bank advances are secured by a general assignment of accounts receivable and an assignment of inventories.

6. Pensions:

The present value of past service pension obligations is approximately $6,500,000. Settlement of these obligations will result in annual charges to the provision for unfunded pensions set aside for that purpose and in charges to operations reducing annually from $225,000 for the next nineteen years. During 1971 $401,972 was charged to the provision for unfunded pensions and $233,425 was charged to operations in respect to past service pension obligations.

7. Provision for Special Costs and Losses:

During the year ended December 31, 1971 an amount of $725,000 was charged to the provision for special costs and losses for payments to be made to April 30, 1973 classified as accounts payable, in respect of obligations under long term commodity supply contracts assumed by the Company on the purchase in 1968 of various assets and operations from Dosco. All obligations under these contracts have now been established and the balance in the provision of $1,900,000 has been transferred to retained earnings.

8. Income Taxes:

As at December 31, 1971 the Company had income tax benefits of approximately $434,000 available for reduction of future income tax provisions.

9. Remuneration of Directors and Officers:

For the year 1971 no remuneration was paid to officers and one director received remuneration of $606. In the year 1970 no remuneration was paid to officers and directors.

Divisions, Subsidiaries and Principal Products

DIVISIONS

Canadian Bridge Division, Windsor, Ont.

Trenton Works Division, Trenton, N.S.

Halifax Shipyards Division, Halifax, N.S.

SUBSIDIARIES

Dosco Overseas Engineering Limited, Aylesbury, England

Hollybank Engineering Company Limited, Aylesbury, England

DIVISIONS AND SUBSIDIARIES ENGAGED MAINLY IN PRODUCING:

Equipment for transportation industry	
Trenton Works Division	Railway freight and tank cars; railway axles; industrial and mine cars; forgings; storage and pressure tanks.

Other general engineering products	
Canadian Bridge Division Halifax Shipyards Division Dosco Overseas Engineering Limited Hollybank Engineering Company Limited	Transmission towers and poles; masts; sub-stations; naval and merchant shipbuilding and repair; offshore drilling vessel construction; mining equipment.

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